

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Chesaning	County Saginaw
Fiscal Year End February 28, 2006	Opinion Date April 21, 2006	Date Audit Report Submitted to State August 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

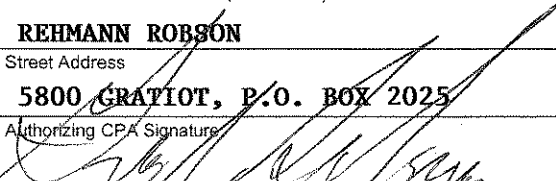
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No additional items to enclose	
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number (989) 799-9580	
Street Address 5800 GRATIOT, P.O. BOX 2025		City SAGINAW	State MI
Zip 48605			
Authorizing CPA Signature 		Printed Name GERALD J DESLOVER, CPA	License Number A245502

Village of Chesaning

Chesaning, Michigan



Financial Statements

For the Year Ended
February 28, 2006

VILLAGE OF CHESANING

FINANCIAL STATEMENTS

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VILLAGE OF CHESANING

FINANCIAL STATEMENTS

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

April 21, 2006

Village Council
Village of Chesaning
Chesaning, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Village of Chesaning, Michigan***, as of and for the year ended February 28, 2006, as listed in the table of contents. These financial statements are the responsibility of the ***Village of Chesaning, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***Village of Chesaning, Michigan***, as of February 28, 2006, and the respective changes in financial position, and cash flows, where applicable, thereof, and the respective budgetary comparison for the General Fund and major special revenue fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Chesaning's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

As management of *Village of Chesaning, Michigan*, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$4,138,536 (*net assets*). Of this amount, \$1,323,070 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$265,311.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$496,777, an increase of \$64,407 in comparison with the prior year. This is due primarily to a slight increase in state shared revenues. More than 95 percent of this total amount, or \$486,777, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$269,993, or 29 percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include

general government, public safety, public works, health and welfare, and recreation and cultural. The business-type activities of the Village include wastewater treatment and water operations.

The government-wide financial statements include not only the Village itself (known as the *primary government*), but also the legally separate Downtown Development Authority and Economic Development Corporation for which the Village is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and major streets funds, each of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 12-17 of this report.

Proprietary funds. The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its wastewater treatment and water operations. The *internal service fund* is an accounting device used to accumulate and allocate cost internally among the Village's various functions. The Village uses the internal service fund to account for its equipment pool operations. Because these services predominately benefit governmental rather than business-type functions, they have been included largely within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater treatment and water operations, both of which are considered to be major funds of the Village. The internal service fund is presented as a separate column in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary fund financial statement can be found on page 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-41 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the accompanying notes. Combining and individual fund statements and schedules can be found on pages 42-49 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Chesaning, assets exceeded liabilities by \$4,138,536 at the close of the most recent fiscal year.

One of the largest portions of the Village's net assets (69 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Chesaning's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$ 799,838	\$ 970,296	\$ 514,602	\$ 534,638	\$ 1,314,440	\$ 1,504,934
Capital assets	<u>326,224</u>	<u>352,592</u>	<u>3,817,598</u>	<u>3,844,690</u>	<u>4,143,822</u>	<u>4,197,282</u>
Total assets	<u>1,126,062</u>	<u>1,322,888</u>	<u>4,332,200</u>	<u>4,379,328</u>	<u>5,458,262</u>	<u>5,702,216</u>
Long-term liabilities						
outstanding	15,403	79,693	1,445,000	1,330,000	1,460,403	1,409,693
Other liabilities	<u>69,105</u>	<u>99,183</u>	<u>39,471</u>	<u>54,804</u>	<u>108,576</u>	<u>153,987</u>
Total liabilities	<u>84,508</u>	<u>178,876</u>	<u>1,484,471</u>	<u>1,384,804</u>	<u>1,568,979</u>	<u>1,563,680</u>
Net assets:						
Invested in capital						
assets, net of						
related debt	326,224	300,776	2,372,598	2,514,690	2,698,822	2,815,466
Unrestricted	<u>715,330</u>	<u>843,236</u>	<u>475,131</u>	<u>479,834</u>	<u>1,190,461</u>	<u>1,323,070</u>
Total net assets	<u>\$ 1,041,554</u>	<u>\$ 1,144,012</u>	<u>\$ 2,847,729</u>	<u>\$ 2,994,524</u>	<u>\$ 3,889,283</u>	<u>\$ 4,138,536</u>

The remaining balance of *unrestricted net assets* (32 percent or \$1,323,070) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in both categories of net assets for the government as a whole, as well as for its separate governmental activities and business-type activities.

The Village's net assets increased by \$265,311 during the current fiscal year. This increase largely reflects the increased revenue from state shared revenue sources.

Village of Chesaning's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue:						
Program revenue:						
Charges for services	\$ 233,128	\$ 257,634	\$ 729,092	\$ 900,152	\$ 962,220	\$ 1,157,786
Operating grants and contributions	205,831	213,717	-	-	205,831	213,717
General revenue:						
Property taxes	528,495	539,716	114,671	120,132	643,166	659,848
Grants and contrib. not restricted to specific programs	254,795	254,208	-	-	254,795	254,208
Other	5,404	14,714	7,494	21,163	12,898	35,877
Transfers	<u>5,900</u>	<u>-</u>	<u>(5,900)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,233,553</u>	<u>1,279,989</u>	<u>845,357</u>	<u>1,041,447</u>	<u>2,078,910</u>	<u>2,321,436</u>
Expenses:						
Legislative	18,059	19,211	-	-	18,059	19,211
General government	333,332	339,640	-	-	333,332	339,640
Public safety	230,106	209,694	-	-	230,106	209,694
Public works	779,645	532,531	-	-	779,645	532,531
Recreation and cultural	75,596	76,455	-	-	75,596	76,455
Sanitary sewer	-	-	588,532	514,747	588,532	514,747
Water	<u>-</u>	<u>-</u>	<u>311,119</u>	<u>363,847</u>	<u>311,119</u>	<u>363,847</u>
Total expenses	<u>1,436,738</u>	<u>1,177,531</u>	<u>899,651</u>	<u>878,594</u>	<u>2,336,389</u>	<u>2,056,125</u>
Increase (decrease) in net assets	(203,185)	102,458	(54,294)	162,853	(257,479)	265,311
Net assets – beginning of year, as restated	<u>1,244,739</u>	<u>1,041,554</u>	<u>2,902,023</u>	<u>2,831,671</u>	<u>4,146,762</u>	<u>3,873,225</u>
Total net assets	<u>\$ 1,041,554</u>	<u>\$ 1,144,012</u>	<u>\$ 2,847,729</u>	<u>\$ 2,994,524</u>	<u>\$ 3,889,283</u>	<u>\$ 4,138,536</u>

Governmental activities. Governmental activities increased the Village's net assets by \$102,458 resulting in a modest increase in the net assets of the Village. Key elements of this increase are as follows:

- Increased revenue as a result of fee increase in the Village's charges for services.
- The majority of the Village expenses remained relatively constant but the expenses related to highway and street maintenance (public works) were less than in the prior year due to completed projects in the prior fiscal year.

Business-type activities. Business-type activities increased the Village's net assets by \$162,853, resulting in modest growth in the net assets of the Village. Key elements of this increase are as follows:

- Expenses continue to increase in connection with the improvements to the water system. The improvements to the wastewater treatment system that are required by the Department of Environmental Quality are now moving from evaluation to construction and have resulted in a decrease in expenses.
- The new user fees that generated increased charges for services have kept pace with the current costs.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$496,777, an increase of \$64,607 in comparison with the prior year. Approximately 98 percent of this total amount (\$486,777) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it is the balance on the long-term advance to the Wastewater Treatment Fund and will only be liquidated over time.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$269,993, and total fund balance was \$279,993. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 29 percent of total general fund expenditures.

The fund balance of the Village's general fund increased by \$50,510 during the current fiscal year. The slight increase is attributable to increased revenues from fees and a slight reduction in expenditures.

The major streets fund has a total fund balance of \$71,292, which decreased by \$812 during the year. The slight decrease is due to the revenue sources and expenditures of these activities remaining relatively consistent.

The local streets fund has a total fund balance of \$12,526, which increased by \$370 during the year. The slight increase is due to the revenue sources and expenditures of these activities remaining relatively consistent.

The remaining special revenue funds did not experience significant decreases or increases in fund balance. This is due to the revenue sources and expenditures of these activities remaining relatively consistent.

Proprietary funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the wastewater treatment and water funds at the end of the year amounted to \$251,809 and \$199,949, respectively. The wastewater fund had an increase in net assets for the year of \$190,440 and the water fund had a decrease in net assets for the year of \$45,651. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights

There were no differences between the original and final amended budgets for expenditures because the Village did not have significant changes in activity during the years that were expected to require the budget be altered.

Budget to actual comparisons for the Village's general fund were generally favorable except the department of public works activities. The department of public works activities exceed the final budget as a result of significantly higher charges for fringe benefits than anticipated.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2006, amounted to \$4,197,282 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment.

Village of Chesaning's Capital Assets (net of depreciation)						
	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land	\$ 4,000	\$ 4,000	\$ 91,135	\$ 91,135	\$ 95,135	\$ 95,135
Construction in progress	-	3,644	-	-	-	3,644
Building	54,298	51,168	-	-	54,298	51,168
Infrastructure	-	2,102	-	-	-	2,102
Plant and facilities	-	-	3,678,294	3,701,900	3,678,295	3,701,900
Machinery and equipment	166,134	157,154	46,069	37,865	212,203	195,019
Vehicles	101,178	125,339	2,100	13,790	103,278	139,129
Office equipment	614	9,185	-	-	613	9,185
Total net assets	<u>\$ 326,224</u>	<u>\$ 352,592</u>	<u>\$ 3,817,598</u>	<u>\$ 3,844,690</u>	<u>\$ 4,143,822</u>	<u>\$ 4,197,282</u>

Additional information on the Village's capital assets can be found in note III C. on pages 33-35 of this report.

Long-term debt. At the end of the current fiscal year, the Village had total debt outstanding of \$1,409,693. Of this amount, \$1,330,000 represents bonds secured solely by specified revenue sources (i.e., revenue bonds), \$51,816 represents an installment contract, and \$27,877 represents accrued compensated absences.

Village of Chesaning's Outstanding Debt
General Obligation and Revenue Bonds

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue bonds	\$ -	\$ -	\$ 1,445,000	\$ 1,330,000	\$ 1,445,000	\$ 1,330,000
Installment contract	-	51,816	-	-	-	51,816
Accrued compensated absences	<u>15,403</u>	<u>27,877</u>	<u>-</u>	<u>-</u>	<u>15,403</u>	<u>27,877</u>
Total net debt	<u>\$ 15,403</u>	<u>\$ 79,693</u>	<u>\$ 1,445,000</u>	<u>\$ 1,330,000</u>	<u>\$ 1,460,403</u>	<u>\$ 1,409,693</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the Village is \$5,115,058, which is significantly in excess of the Village's outstanding general obligation debt.

Additional information on the Village's long-term debt can be found in note III F. on pages 36-37 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2006-07 fiscal year:

- The unemployment rate for the Saginaw County metropolitan area (the Village is in the Saginaw area) has continued to climb and the employment outlook has not improved.
- The Village is comprised principally of residential areas. There is a small stable business base that includes some light industrial operation but the Village has difficulty attracting new business.
- Inflationary trends in the region compare favorably to national indices.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Office, 1100 West Broad Street, Chesaning, Michigan, 48616.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE FINANCIAL STATEMENTS

VILLAGE OF CHESANING
STATEMENT OF NET ASSETS
FEBRUARY 28, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 673,805	\$ 4,252	\$ 678,057	\$ 160,709
Receivables	111,137	28,550	139,687	79,285
Restricted cash and cash equivalents	-	686,190	686,190	-
Internal balances	185,354	(185,354)	-	-
Other assets	-	1,000	1,000	-
Capital assets, net:				
Assets not being depreciated	7,644	91,135	98,779	-
Assets being depreciated	344,948	3,753,555	4,098,503	-
Total assets	1,322,888	4,379,328	5,702,216	239,994
Liabilities				
Accounts payable	99,183	54,804	153,987	19,613
Noncurrent liabilities:				
Due within one year	44,209	125,000	169,209	36,000
Due in more than one year	35,484	1,205,000	1,240,484	190,000
Total liabilities	178,876	1,384,804	1,563,680	245,613
Net Assets				
Invested in capital assets, net of related debt	300,776	2,514,690	2,815,466	-
Unrestricted (deficit)	843,236	479,834	1,323,070	(5,619)
Total net assets	\$ 1,144,012	\$ 2,994,524	\$ 4,138,536	\$ (5,619)

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF CHESANING
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2006**

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities:				
Legislative	\$ 19,211	\$ -	\$ -	\$ (19,211)
General government	339,640	57,914	-	(281,726)
Public safety	209,694	107	2,090	(207,497)
Public works	532,531	151,319	211,627	(169,585)
Recreation and culture	76,455	23,599	-	(52,856)
Planning and development	-	24,695	-	24,695
Total governmental activities	<u>1,177,531</u>	<u>257,634</u>	<u>213,717</u>	<u>(706,180)</u>
Business-type activities:				
Wastewater treatment	514,747	637,292	-	122,545
Water	363,847	262,860	-	(100,987)
Total business-type activities	<u>878,594</u>	<u>900,152</u>	<u>-</u>	<u>21,558</u>
Total primary government	<u>\$ 2,056,125</u>	<u>\$ 1,157,786</u>	<u>\$ 213,717</u>	<u>\$ (684,622)</u>
Component units				
Downtown Development Authority	<u>\$ 60,277</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (60,277)</u>

continued...

VILLAGE OF CHESANING
STATEMENT OF ACTIVITIES (Concluded)
FOR THE YEAR ENDED FEBRUARY 28, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (706,180)	\$ 21,558	\$ (684,622)	\$ (60,277)
General revenues:				
Property taxes	539,716	120,132	659,848	132,326
Grants and contributions not restricted to specific programs	254,208	-	254,208	-
Unrestricted investment earnings	14,714	21,163	35,877	4,456
Miscellaneous	-	-	-	3,143
Total general revenues	808,638	141,295	949,933	139,925
Change in net assets	102,458	162,853	265,311	79,648
Net assets (deficit), beginning of year, as restated	1,041,554	2,831,671	3,873,225	(85,267)
Net assets (deficit), end of year	<u>\$ 1,144,012</u>	<u>\$ 2,994,524</u>	<u>\$ 4,138,536</u>	<u>\$ (5,619)</u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

VILLAGE OF CHESANING, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS**

FEBRUARY 28, 2006

ASSETS	GENERAL	MAJOR STREETS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Cash and cash equivalents	\$ 265,444	\$ 61,139	\$ 146,308	\$ 472,891
Receivables:				
Accounts	3,451	-	-	3,451
Taxes - delinquent	33,157	-	2,897	36,054
Due from component units	11,431	-	1,019	12,450
Due from other governmental units	43,046	11,836	4,300	59,182
Advance to other funds	10,000	-	-	10,000
TOTAL ASSETS	\$ 366,529	\$ 72,975	\$ 154,524	\$ 594,028
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 78,321	\$ 1,507	\$ 8,859	\$ 88,687
Accrued liabilities	8,215	176	173	8,564
TOTAL LIABILITIES	86,536	1,683	9,032	97,251
FUND BALANCES				
Reserved for advance to Wastewater Treatment Fund	10,000	-	-	10,000
Unreserved - undesignated, reported in				
General fund	269,993	-	-	269,993
Special revenue funds	-	71,292	145,492	216,784
TOTAL FUND BALANCES	279,993	71,292	145,492	496,777
TOTAL LIABILITIES AND FUND BALANCES	\$ 366,529	\$ 72,975	\$ 154,524	\$ 594,028

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
FEBRUARY 28, 2006

Fund balances - total governmental funds	\$ 496,777
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	301,190
Deduct - accumulated depreciation	(219,109)

An internal service fund is used by management to charge the costs of certain equipment usage to individual funds. A portion of the assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in the internal service fund	593,031
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	<u>(27,877)</u>
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Net assets of governmental activities	<u><u>\$ 1,144,012</u></u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	GENERAL	MAJOR STREETS	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Taxes and special assessments	\$ 496,604	\$ -	\$ 43,112	\$ 539,716
Licenses and permits	24,695	-	-	24,695
Intergovernmental:				
State	256,298	143,922	51,860	452,080
Charges for services	122,507	-	618	123,125
Interest	3,917	1,939	3,037	8,893
Reimbursements and refunds	28,406	-	-	28,406
Other	72,807	3,316	21,130	97,253
TOTAL REVENUES	1,005,234	149,177	119,757	1,274,168
EXPENDITURES				
Legislative	19,211	-	-	19,211
General government	325,758	-	-	325,758
Public safety	205,976	-	-	205,976
Public works	282,857	131,475	132,582	546,914
Recreation and culture	89,992	-	-	89,992
Capital outlay	11,710	-	-	11,710
TOTAL EXPENDITURES	935,504	131,475	132,582	1,199,561
REVENUES OVER (UNDER) EXPENDITURES	69,730	17,702	(12,825)	74,607
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	27,734	27,734
Transfers (out)	(19,220)	(18,514)	-	(37,734)
TOTAL OTHER FINANCING SOURCES (USES)	(19,220)	(18,514)	27,734	(10,000)
NET CHANGE IN FUND BALANCES	50,510	(812)	14,909	64,607
FUND BALANCES, BEGINNING OF YEAR	229,483	72,104	130,583	432,170
FUND BALANCES, END OF YEAR	\$ 279,993	\$ 71,292	\$ 145,492	\$ 496,777

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED FEBRUARY 28, 2006

Net change in fund balances - total governmental funds	\$	64,607
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital assets purchased		16,759
Deduct - depreciation expense		(13,150)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. A portion of the net revenue (expense) is reported with governmental activities.

Add - net operating income from governmental activities in internal service fund		41,219
Add - investment income from internal service fund		5,821
Deduct - net loss on sale of capital assets		(10,324)
Add - net transfers		10,000

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.

Subtract - increase in accrual for compensated absences		<u>(12,474)</u>
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Change in net assets of governmental activities	\$	<u>102,458</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 528,177	\$ 528,177	\$ 496,604	\$ (31,573)
Licenses and permits	20,425	20,425	24,695	4,270
Intergovernmental:				
State	212,000	212,000	256,298	44,298
Charges for services	120,634	120,634	122,507	1,873
Interest	10,300	10,300	3,917	(6,383)
Reimbursements and refunds	20,500	20,500	28,406	7,906
Other	49,690	49,690	72,807	23,117
TOTAL REVENUES	961,726	961,726	1,005,234	43,508
EXPENDITURES				
Legislative	19,625	19,625	19,211	414
General government	329,794	329,794	325,758	4,036
Public safety	207,386	207,386	205,976	1,410
Public works				
Garbage collection	114,420	114,420	110,435	3,985
Department of public works	154,196	154,196	172,422	(18,226)
Recreation and culture				
Parks and recreation	65,843	65,843	64,189	1,654
Airport	12,040	12,040	15,708	(3,668)
Community center	10,420	10,420	10,095	325
Capital outlay	14,000	14,000	11,710	2,290
TOTAL EXPENDITURES	927,724	927,724	935,504	(7,780)
REVENUES OVER (UNDER) EXPENDITURES	34,002	34,002	69,730	35,728
OTHER FINANCING (USES)				
Transfers (out)	(10,000)	(10,000)	(19,220)	(9,220)
NET CHANGE IN FUND BALANCES	24,002	24,002	50,510	26,508
FUND BALANCE, BEGINNING OF YEAR	229,483	229,483	229,483	-
FUND BALANCE, END OF YEAR	\$ 253,485	\$ 253,485	\$ 279,993	\$ 26,508

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREETS FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental:				
State	\$ 135,000	\$ 135,000	\$ 143,922	\$ 8,922
Interest	1,200	1,200	1,939	739
Other	9,000	9,000	3,316	(5,684)
TOTAL REVENUES	<u>145,200</u>	<u>145,200</u>	<u>149,177</u>	<u>3,977</u>
EXPENDITURES				
Public works:				
Wages	25,650	25,650	31,503	(5,853)
Fringe benefits	12,200	12,200	13,200	(1,000)
Materials and supplies	14,700	14,700	7,741	6,959
Professional services	10,000	10,000	30,851	(20,851)
Equipment rental	40,000	40,000	48,180	(8,180)
TOTAL EXPENDITURES	<u>102,550</u>	<u>102,550</u>	<u>131,475</u>	<u>(28,925)</u>
REVENUES OVER (UNDER) EXPENDITURES	42,650	42,650	17,702	(24,948)
OTHER FINANCING (USES)				
Transfers (out)	(25,000)	(25,000)	(18,514)	6,486
NET CHANGE IN FUND BALANCES	17,650	17,650	(812)	(18,462)
FUND BALANCES, BEGINNING OF YEAR	<u>72,104</u>	<u>72,104</u>	<u>72,104</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 89,754</u>	<u>\$ 89,754</u>	<u>\$ 71,292</u>	<u>\$ (18,462)</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

FEBRUARY 28, 2006

	BUSINESS-TYPE ACTIVITIES			GOVERNMENTAL ACTIVITIES
	WASTEWATER TREATMENT FUND	WATER FUND	TOTAL	INTERNAL SERVICE FUND
ASSETS				
CURRENT ASSETS				
Cash and cash equivalent	\$ -	\$ 4,252	\$ 4,252	\$ 200,914
Accounts receivable	15,022	2,593	17,615	-
Taxes receivable - delinquent	4,834	3,271	8,105	-
Due from other funds	-	-	-	163,430
Due from component unit	1,698	1,132	2,830	-
Advance to other funds	-	-	-	40,000
Prepaid expenses	-	1,000	1,000	-
Restricted cash - bond reserve	192,491	110,430	302,921	-
Restricted cash - improvement	193,332	89,722	283,054	-
Restricted cash - replacement	100,215	-	100,215	-
TOTAL CURRENT ASSETS	507,592	212,400	719,992	404,344
CAPITAL ASSETS				
Land	53,112	38,023	91,135	-
Plant and facilities	3,804,735	2,068,234	5,872,969	-
Equipment	167,272	28,724	195,996	316,463
Automobile	44,601	13,195	57,796	323,953
Less accumulated depreciation	(1,743,034)	(630,172)	(2,373,206)	(369,905)
NET CAPITAL ASSETS	2,326,686	1,518,004	3,844,690	270,511
TOTAL ASSETS	2,834,278	1,730,404	4,564,682	674,855
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	15,950	7,177	23,127	1,383
Accrued liabilities	26,403	5,274	31,677	549
Due to other funds	163,430	-	163,430	-
Notes payable - current	-	-	-	16,332
Bonds payable - current	75,000	50,000	125,000	-
TOTAL CURRENT LIABILITIES	280,783	62,451	343,234	18,264
LONG-TERM LIABILITIES				
Advance from other fund	50,000	-	50,000	-
Notes payable - net of current portion	-	-	-	35,484
Bonds payable - net of current portion	630,000	575,000	1,205,000	-
TOTAL LONG-TERM LIABILITIES	680,000	575,000	1,255,000	35,484
TOTAL LIABILITIES	960,783	637,451	1,598,234	53,748
NET ASSETS:				
Invested in capital assets, net of related debt	1,621,686	893,004	2,514,690	218,695
Unrestricted	251,809	199,949	451,758	402,412
TOTAL NET ASSETS	\$ 1,873,495	\$ 1,092,953	2,966,448	\$ 621,107
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			28,076	
NET ASSETS OF BUSINESS-TYPE ACTIVITIES			\$ 2,994,524	

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	BUSINESS-TYPE ACTIVITIES			GOVERNMENTAL ACTIVITIES
	WASTEWATER TREATMENT FUND	WATER FUND	TOTAL	INTERNAL SERVICE FUND
OPERATING REVENUES				
Taxes	\$ 72,053	\$ 48,079	\$ 120,132	\$ -
Charges for services	608,166	259,738	867,904	178,602
Other	19,126	13,122	32,248	-
TOTAL OPERATING REVENUES	699,345	320,939	1,020,284	178,602
OPERATING EXPENSES				
Personnel services	191,060	168,636	359,696	55,000
Professional services	16,664	15,333	31,997	-
Insurance	4,159	2,844	7,003	-
Supplies	30,363	27,892	58,255	8,047
Collection system	22,478	-	22,478	-
Digester project	23,661	-	23,661	-
Repairs and maintenance	18,356	5,075	23,431	5,753
Equipment rental	22,158	32,265	54,423	-
Utilities	52,857	22,465	75,322	-
Gas and oil	635	6,270	6,905	2,796
Depreciation	89,810	41,888	131,698	46,093
Other	5,133	15,408	20,541	1,630
TOTAL OPERATING EXPENSES	477,334	338,076	815,410	119,319
OPERATING INCOME (LOSS)	222,011	(17,137)	204,874	59,283
NONOPERATING REVENUES (EXPENSES)				
Interest income	13,197	7,966	21,163	5,821
Gain (loss) on sale of capital assets	-	-	-	(10,324)
Interest expense	(44,768)	(36,480)	(81,248)	-
TOTAL NONOPERATING (EXPENSES)	(31,571)	(28,514)	(60,085)	(4,503)
INCOME (LOSS) BEFORE TRANSFERS	190,440	(45,651)	144,789	54,780
TRANSFERS				
Transfers in	-	-	-	10,000
Transfers out	-	-	-	-
Net transfers	-	-	-	10,000
CHANGE IN NET ASSETS	190,440	(45,651)	144,789	64,780
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	1,683,055	1,138,604		556,327
NET ASSETS, END OF YEAR	\$ 1,873,495	\$ 1,092,953		\$ 621,107
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			18,064	
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES			\$ 162,853	

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	BUSINESS-TYPE ACTIVITIES			GOVERNMENTAL ACTIVITIES
	WASTEWATER TREATMENT FUND	WATER FUND	TOTAL	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 698,213	\$ 323,538	\$ 1,021,751	\$ -
Cash received from interfund services	-	-	-	224,567
Cash payments to employees	(176,986)	(173,457)	(350,443)	(55,275)
Cash payments to suppliers for goods and services	(170,019)	(94,494)	(264,513)	(18,410)
Cash payments for interfund services	(79,448)	(33,148)	(112,596)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	271,760	22,439	294,199	150,882
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Transfer in	-	-	-	10,000
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from sale of capital assets	-	-	-	2,176
Proceeds from debt issuance	-	-	-	51,816
Acquisition of capital assets	(124,666)	(34,124)	(158,790)	(81,352)
Principal paid on long-term debt	(70,000)	(45,000)	(115,000)	-
Interest and fiscal charges paid on long-term debt	(60,826)	(36,480)	(97,306)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(255,492)	(115,604)	(371,096)	(27,360)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	13,197	7,966	21,163	5,821
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,465	(85,199)	(55,734)	139,343
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	456,573	289,603	746,176	61,571
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 486,038	\$ 204,404	\$ 690,442	\$ 200,914
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income (loss)	\$ 222,011	\$ (17,137)	\$ 204,874	59,283
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	89,810	41,888	131,698	46,093
Change in assets and liabilities:				
Accounts receivable	(1,132)	2,599	1,467	-
Due from other funds	-	-	-	45,965
Due from component unit	(1,325)	(883)	(2,208)	-
Prepaid expenses	-	(1,000)	(1,000)	-
Accounts payable	4,287	1,793	6,080	(184)
Accrued liabilities	14,074	(4,821)	9,253	(275)
Due to other funds	(55,965)	-	(55,965)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 271,760	\$ 22,439	\$ 294,199	\$ 150,882

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND

FEBRUARY 28, 2006

	<u>AGENCY</u>
	<u>PAYROLL</u>
	<u>FUND</u>
ASSETS	
Cash and cash equivalents	<u>\$ 5,473</u>
LIABILITIES	
Accrued liabilities	<u>\$ 5,473</u>

The accompanying notes are an integral part of these financial statement

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF NET ASSETS
COMPONENT UNITS**

FEBRUARY 28, 2006

ASSETS	DOWNTOWN DEVELOPMENT AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION	TOTAL
Cash and cash equivalents	\$ 158,079	\$ 2,630	\$ 160,709
Receivables	79,285	-	79,285
TOTAL ASSETS	237,364	2,630	239,994
LIABILITIES			
Accounts payable	19,613	-	19,613
Noncurrent liabilities:			
Due within one year	36,000	-	36,000
Due in more than one year	190,000	-	190,000
TOTAL LIABILITIES	245,613	-	245,613
NET ASSETS (DEFICIT)			
Unrestricted	\$ (8,249)	\$ 2,630	\$ (5,619)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING
STATEMENT OF ACTIVITIES - COMPONENT UNITS
FOR THE YEAR ENDED FEBRUARY 28, 2006

	Component Units		
	Downtown Development Authority	Economic Development Corporation	Total
<u>Expenses</u>			
Governmental activities:			
Health and welfare	\$ (41,277)	\$ -	\$ (41,277)
Interest on debt	(19,000)	-	(19,000)
Total	<u>(60,277)</u>	<u>-</u>	<u>(60,277)</u>
Net (expense) revenue	<u>(60,277)</u>	<u>-</u>	<u>(60,277)</u>
General revenues:			
Property taxes	132,326	-	132,326
Unrestricted investment earnings	4,442	14	4,456
Miscellaneous	<u>3,143</u>	<u>-</u>	<u>3,143</u>
Total general revenues	<u>139,911</u>	<u>14</u>	<u>139,925</u>
Change in net assets	79,634	14	79,648
Net assets, (deficit) beginning of year, as restated	<u>(87,883)</u>	<u>2,616</u>	<u>(85,267)</u>
Net assets, (deficit) end of year	<u><u>\$ (8,249)</u></u>	<u><u>\$ 2,630</u></u>	<u><u>\$ (5,619)</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The accounting policies of the *Village of Chesaning* (the “Village”) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

A. REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village and its component units. The component units discussed below are included in the Village’s reporting entity because of the significance of their operational or financial relationship with the Village.

Discretely Presented Component Units

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the Village board. The budgets and expenditures of the Downtown Development Authority must be approved by the Village board. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete financial statements of the Downtown Development Authority can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

Economic Development Corporation - The expenditures of the Economic Development Corporation must be approved by the Village. The Village also has the ability to significantly influence the operations of the Economic Development Corporation. Complete financial statements of the Economic Development Corporation can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

Joint Operations

Under authorization of state statutes, the *Village of Chesaning* joined Chesaning Township and Brady Township to establish and operate a Joint Fire Protection Authority for the mutual advantage of the governments. Two members of the Board of Directors for the Authority are appointed by each Township and one member is appointed by the Village. The records are maintained and funds held by Chesaning Township. The operating and capital budgets are to be funded by a millage from each government. The tax for the Fire Authority on all Village properties is collected by Chesaning Township.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major streets fund* accounts for the grant revenues and the related operation and maintenance of the major street system.

The government reports the following major proprietary funds:

The *wastewater treatment fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the Village reports the following fund types:

Internal service funds account for equipment usage provided to other departments of the government on a cost reimbursement basis.

Agency funds are used to account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Property taxes are reported as *general revenues* rather than as program revenues.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

1. DEPOSITS AND INVESTMENTS

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

Statutory Authority

State statutes authorize the Village to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The Village does not have a separate investment policy and therefore allows for all of these types of investments.

2. RECEIVABLES

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

3. RESTRICTED ASSETS - CASH AND CASH EQUIVALENTS

Certain cash accounts are classified as restricted assets on the Statement of Net Assets because their use is limited. In the Enterprise Funds, the "Bond Reserve" account is used for the payment of current debt obligations and the "Improvements" and "Replacement" accounts are to report resources set aside to fund asset renewals, replacements and repairs.

4. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and water and sewer systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of five years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

VILLAGE OF CHESANING

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

Plant and facilities	20 - 50 years
Equipment	5 - 15 years
Vehicles	5 - 10 years

5. LONG-TERM OBLIGATIONS

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. COMPENSATED ABSENCES

Vacation and sick days for Village employees are determined by union contracts. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

The long term portion of unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

7. FUND EQUITY

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

8. INTERFUND TRANSACTIONS

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The classification of amounts recorded as subsidies or advances is determined by Village management.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS AND BUDGETARY ACCOUNTING

The Village adopts budgets for the General Fund and Special Revenue Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Village Council. All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted or amended by the Village Council throughout the operating year.

The legal level of control is at the activity level for the General Fund and the Special Revenue Funds.

The Administrator is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total activity expenditures in the General Fund and Special Revenue Funds must be approved by the Village Council.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended February 28, 2006, the Village incurred expenditures in the General and Special Revenue Funds, which were in excess of the amounts appropriated in various activities as follows:

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable) Variance</u>
GENERAL FUND			
Department of public works	\$ 154,196	\$ 172,422	\$ (18,226)
Airport	12,040	15,708	(3,668)
Transfers out	10,000	19,220	(9,220)
SPECIAL REVENUE FUNDS			
MAJOR STREETS FUND			
Public works	102,550	131,475	(28,925)
LOCAL STREETS FUND			
Public works	62,750	70,247	(7,497)
AIRPORT FUND			
Public works	-	5,519	(5,519)

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

A reconciliation of cash, pooled investments and investments as shown in the financial statement to the Village's deposits and investments is as follows:

	<u>Carrying Amount</u>
Government-wide Financial Statement Captions:	
Primary Government:	
Cash and cash equivalents	\$ 678,057
Restricted cash and cash equivalents	686,190
Component Unit:	
Cash and cash equivalents	160,709
Fiduciary Fund Financial Statement Captions:	
Cash and cash equivalents	<u>5,473</u>
Total	<u>\$ 1,530,429</u>
Notes to Financial Statements:	
Deposits	\$ 173,964
Investments	<u>1,356,465</u>
Total	<u>\$ 1,530,429</u>

Investment and deposit risk

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note D.1. of the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the Village's investments with a fair value of \$1,356,465 are held in National City MIF accounts which do not have a maturity date are rated Aaa by Moody's.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note D.1. of the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit. The National City MIF accounts are rated Aaa by Moody's.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end \$85,609 of the Village's bank balance of \$185,609 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Village does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the Village's funds are not exposed to custodial credit risk since the securities are held in the counterparty's trust department in the Village's name.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note D.1. of the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the Village's investments are in National City MIFs.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

B. RECEIVABLES

Receivables as of year end for the Village's governmental and business-type activities in the aggregate, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables:		
Taxes	\$ 36,054	\$ 8,105
Accounts	3,451	17,615
Due from component units	12,450	2,830
Intergovernmental	<u>59,182</u>	<u>-</u>
 Total receivables	 <u>\$ 111,137</u>	 <u>\$ 28,550</u>

C. CAPITAL ASSETS

Capital asset activity for the year ended February 28, 2006 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Construction in progress	<u>-</u>	<u>3,644</u>	<u>-</u>	<u>3,644</u>
Total capital assets not being depreciated	<u>4,000</u>	<u>3,644</u>	<u>-</u>	<u>7,644</u>
Capital assets being depreciated:				
Building	125,219	-	-	125,219
Infrastructure	-	2,145	-	2,145
Machinery and equipment	375,394	10,277	-	385,671
Vehicles	350,528	71,075	(25,000)	396,603
Office equipment	<u>13,354</u>	<u>10,970</u>	<u>-</u>	<u>24,324</u>
Total capital assets being depreciated	<u>864,495</u>	<u>94,467</u>	<u>(25,000)</u>	<u>933,962</u>
Less accumulated depreciation				
Building	(70,921)	(3,130)	-	(74,051)
Infrastructure	-	(43)	-	(43)
Machinery and equipment	(209,260)	(19,257)	-	(228,517)
Vehicles	(249,350)	(34,414)	12,500	(271,264)
Office equipment	<u>(12,740)</u>	<u>(2,399)</u>	<u>-</u>	<u>(15,139)</u>
Total accumulated depreciation	<u>(542,271)</u>	<u>(59,243)</u>	<u>12,500</u>	<u>(589,014)</u>

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Total capital assets being depreciated, net	<u>322,224</u>	<u>35,224</u>	<u>(12,500)</u>	<u>344,948</u>
Governmental activities capital assets, net	<u>\$ 326,224</u>	<u>\$ 38,868</u>	<u>\$ (12,500)</u>	<u>\$ 352,592</u>
Business-type activities				
Capital assets not being depreciated:				
Land	<u>\$ 91,135</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,135</u>
Capital assets being depreciated:				
Plant and facilities	5,730,195	142,774	-	5,872,969
Equipment	194,525	1,471	-	195,996
Vehicles	<u>43,251</u>	<u>14,545</u>	<u>-</u>	<u>57,796</u>
Total capital assets being depreciated	<u>5,967,971</u>	<u>158,790</u>	<u>-</u>	<u>6,126,761</u>
Less accumulated depreciation				
Plant and facilities	(2,051,901)	(119,168)	-	(2,171,069)
Equipment	(148,456)	(9,675)	-	(158,131)
Vehicles	<u>(41,151)</u>	<u>(2,855)</u>	<u>-</u>	<u>(44,006)</u>
Total accumulated depreciation	<u>(2,241,508)</u>	<u>(131,698)</u>	<u>-</u>	<u>(2,373,206)</u>
Total capital assets being depreciated, net	<u>3,726,463</u>	<u>27,092</u>	<u>-</u>	<u>3,753,555</u>
Business-type activities capital assets, net	<u>\$ 3,817,598</u>	<u>\$ 27,092</u>	<u>\$ -</u>	<u>\$ 3,844,690</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 5,573
Public safety	3,718
Public works	3,859
Internal service fund	<u>46,093</u>

Total depreciation expense – governmental activities **\$ 59,243**

Business-type activities:

Wastewater Treatment	\$ 89,810
Water	<u>41,888</u>

Total depreciation expense – business-type activities **\$ 131,698**

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

D. PAYABLES

Accounts payable and accrued liabilities in the primary government are as follows:

	Governmental Activities	Business-type Activities
Payables:		
Accounts	\$ 90,070	\$ 23,127
Accrued liabilities	<u>9,113</u>	<u>31,677</u>
Total payables	<u>\$ 99,183</u>	<u>\$ 54,804</u>

E. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The interfund receivable and interfund payable at February 28, 2006 consists of \$163,430 due from the Wastewater Treatment fund to the Internal Service fund to cover the Wastewater Treatment fund's negative cash balance.

At February 28, 2006, the Village had an interfund advance outstanding of \$50,000. Of this outstanding balance, \$10,000 was originally an advance of \$50,000 from the General Fund to the Wastewater Treatment fund as a subsidy. The remaining balance of \$40,000 is from the Equipment Fund to the Wastewater Treatment Fund for a plant rehabilitation project.

The composition of interfund transfers for the year ended February 28, 2006, is as follows:

	Transfer from:		
Transfer to:	General	Major Streets	Total
Internal Service	\$ 10,000	\$ -	\$ 10,000
Nonmajor Governmental	<u>9,220</u>	<u>18,514</u>	<u>27,734</u>
Total	<u>\$ 19,220</u>	<u>\$ 18,514</u>	<u>\$ 37,734</u>

The transfer from the General fund to the Nonmajor Governmental fund is for the purpose of funding river restoration. The transfer from the Major Streets fund to the Nonmajor Governmental fund is for local street maintenance. Finally, the transfer from the General fund to the Internal Service fund is for the purchase of equipment for future years.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

F. LONG-TERM DEBT

The following is a summary of long-term debt outstanding of the Village and component unit for the year ending February 28, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Governmental activities:					
Internal Service Fund					
Truck Installment Contract 2006- 5.65%, due serially through 2008	\$ -	\$ 51,816	\$ -	\$ 51,816	\$ 16,332
Compensated Absences	<u>15,403</u>	<u>35,333</u>	<u>(22,859)</u>	<u>27,877</u>	<u>27,877</u>
Total Governmental Activities	<u>\$ 15,403</u>	<u>\$ 87,149</u>	<u>\$ (22,859)</u>	<u>\$ 79,693</u>	<u>\$ 44,209</u>
Business-type activities:					
Storm and Sanitary Sewer Revenue					
Bonds 1989-6.6%-7.15%, due serially through 2008	\$ 180,000	\$ -	\$ (40,000)	\$ 140,000	\$ 45,000
Storm and Sanitary Sewer Revenue					
Bonds 1993-5.8% to 6.0%, due serially through 2013	595,000	-	(30,000)	565,000	30,000
Water Supply System Revenue Bonds					
1996-4.4%-6.4%, due serially through 2016	<u>670,000</u>	<u>-</u>	<u>(45,000)</u>	<u>625,000</u>	<u>50,000</u>
Total Business-Type Activities	<u>\$1,445,000</u>	<u>\$ -</u>	<u>\$ (115,000)</u>	<u>\$1,330,000</u>	<u>\$125,000</u>
Component Units:					
Downtown Development Authority					
Michigan Transportation Fund					
Bonds 1994-6.2% to 8.0%, due serially through 2012	\$ 230,000	\$ -	\$ (10,000)	\$ 220,000	\$ 30,000
Downtown Development Authority					
General Obligation Bonds 1994-6.5%, due serially through 2006	12,000	-	(6,000)	6,000	6,000
Downtown Development Authority					
Michigan Transportation Fund					
Bonds 1991-6.0%-9.0%, due serially through 2005	20,000	-	(20,000)	-	-

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Street Lighting Equipment Notes 1991-7% interest, due serially through 2005	\$ 1,152	\$ -	\$ (1,152)	\$ -	\$ -
Total Component Units	<u>\$ 263,152</u>	<u>\$ -</u>	<u>\$ (37,152)</u>	<u>\$ 226,000</u>	<u>\$ 36,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

Annual debt service requirements to maturity for general obligation and revenue bonds and notes are as follows:

Year Ending February 28	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 16,332	\$ 2,928	\$ 125,000	\$ 74,975	\$ 36,000	\$ 15,490
2008	17,255	2,005	125,000	67,422	30,000	13,120
2009	18,229	1,030	145,000	59,319	30,000	11,110
2010	-	-	95,000	52,256	30,000	9,070
2011	-	-	155,000	45,303	30,000	7,000
2012-2016	-	-	685,000	91,610	70,000	7,350
Total	<u>\$ 51,816</u>	<u>\$ 5,963</u>	<u>\$1,330,000</u>	<u>\$390,885</u>	<u>\$ 226,000</u>	<u>\$ 63,140</u>

IV. OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLAN

Plan Description

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

Funding Policy

The Village is required to contribute at an actuarially determined rate; the current rate is 26.33% for public works employees, 36.04% for supervisory employees, and 0.0% for police employees of annual covered payroll. Village employees are not required to contribute to the Plan. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Cost

For the year ended February 28, 2006, the Village's annual pension cost of \$134,233 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 8.4% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/29/04	\$ 119,370	100%	\$ 0
2/28/05	138,196	100	0
2/28/06	134,233	100	0

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/02	\$285,799	\$1,846,160	\$1,560,361	15%	\$382,032	408%
12/31/03	389,894	2,185,471	1,795,577	18	409,551	438
12/31/04	452,642	2,456,623	2,003,981	18	427,655	469

B. RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2006, the Village carried commercial insurance to cover all risk of losses. The Worker's Compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

C. CONTINGENCIES

The Village is a defendant in several matters which involve various claims related to disciplinary proceedings, unfair labor practices and property tax appeals. Outside counsel has advised that the possibility of unfavorable outcomes do exist, but believe that this is not likely. If an unfavorable outcome does occur, legal counsel is currently unable to predict the amount of range of potential loss.

Under the terms of State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, Village management does not believe such disallowances, if any, will be material to the financial position of the Village.

The Village has an Administrative Consent Order with the Michigan Department of Environmental Quality regarding the Village's sewer overflows, which have occurred during the past three fiscal years. No liability has been recorded in the Wastewater Treatment Fund because the amount of any liability is currently undeterminable.

VILLAGE OF CHESANING
NOTES TO FINANCIAL STATEMENTS

D. PROPERTY TAXES

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 15. The Village levies taxes for general operating purposes, water and sewer improvements and street lighting.

Real property taxes not collected as of September 15 are turned over to Saginaw County for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer. The assessed value of real and personal property located in the Village as of July 1, 2005, totaled \$51,150,578 representing 50% of estimated current value. The tax levy for that year was based upon the following rates:

	<u>Millage Rate Used</u>
General operating	10.10
Street lighting	0.90
Water improvement	1.00
Wastewater treatment	1.50

E. PRIOR PERIOD ADJUSTMENTS

For the Wastewater Treatment Fund, an adjustment was made to properly state 2005 interest payable, which caused an understatement in liabilities and expenses. This error has been corrected and caused the following effect on beginning net assets:

Beginning net assets, as previously reported	\$ 1,699,113
Adjustment for 2005 interest payable	<u>(16,058)</u>
Beginning net assets, as restated	<u><u>\$ 1,683,055</u></u>

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**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

VILLAGE OF CHESANING, MICHIGAN

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

FEBRUARY 28, 2006

	SPECIAL		
	LOCAL STREETS	STREET LIGHTING	RIVER RESTORATION
ASSETS			
Cash and cash equivalents	\$ 9,907	\$ 62,170	\$ 4,603
Taxes receivable - delinquent	-	2,897	-
Due from component units	-	1,019	-
Due from other governmental units	4,300	-	-
TOTAL ASSETS	\$ 14,207	\$ 66,086	\$ 4,603
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 1,508	\$ 7,351	\$ -
Accrued liabilities	173	-	-
TOTAL LIABILITIES	1,681	7,351	-
FUND BALANCES			
Unreserved - undesignated	12,526	58,735	4,603
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,207	\$ 66,086	\$ 4,603

REVENUE FUNDS

SIDEWALK IMPROVEMENT	AIRPORT	DPW BUILDING	PEET CENTER	TOTAL
\$ 13,886	\$ 9,818	\$ 45,920	\$ 4	\$ 146,308
-	-	-	-	2,897
-	-	-	-	1,019
-	-	-	-	4,300
\$ 13,886	\$ 9,818	\$ 45,920	\$ 4	\$ 154,524
\$ -	\$ -	\$ -	\$ -	\$ 8,859
-	-	-	-	173
-	-	-	-	9,032
13,886	9,818	45,920	4	145,492
\$ 13,886	\$ 9,818	\$ 45,920	\$ 4	\$ 154,524

VILLAGE OF CHESANING, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	SPECIAL		
	LOCAL STREET	STREET LIGHTING	RIVER RESTORATION
REVENUES			
Taxes	\$ -	\$ 43,112	\$ -
Intergovernmental:			
State	51,860	-	-
Rental income	-	-	-
Interest	221	1,628	-
Other	22	-	15,845
TOTAL REVENUES	52,103	44,740	15,845
EXPENDITURES			
Public works	70,247	34,209	20,462
REVENUES OVER (UNDER) EXPENDITURES	(18,144)	10,531	(4,617)
OTHER FINANCING SOURCES			
Transfers in	18,514	-	9,220
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	18,514	-	9,220
NET CHANGE IN FUND BALANCES	370	10,531	4,603
FUND BALANCES, BEGINNING OF YEAR	12,156	48,204	-
FUND BALANCES, END OF YEAR	\$ 12,526	\$ 58,735	\$ 4,603

REVENUE FUNDS

SIDEWALK IMPROVEMENT	AIRPORT	DPW BUILDING	PEET CENTER	TOTAL
\$ -	\$ -	\$ -	\$ -	43,112
-	-	-	-	51,860
-	618	-	-	618
-	38	1,150	-	3,037
2,271	2,992	-	-	21,130
2,271	3,648	1,150	-	119,757
2,145	5,519	-	-	132,582
126	(1,871)	1,150	-	(12,825)
-	-	-	-	27,734
-	-	-	-	-
-	-	-	-	27,734
126	(1,871)	1,150	-	14,909
13,760	11,689	44,770	4	130,583
\$ 13,886	\$ 9,818	\$ 45,920	\$ 4	\$ 145,492

VILLAGE OF CHESANING, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREETS FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Intergovernmental:				
State	\$ 50,000	\$ 50,000	\$ 51,860	\$ 1,860
Interest	400	400	221	(179)
Other	25,000	25,000	22	(24,978)
TOTAL REVENUES	75,400	75,400	52,103	(23,297)
EXPENDITURES				
Public works:				
Wages	24,600	24,600	18,945	5,655
Fringe benefits	8,150	8,150	7,733	417
Materials and supplies	12,000	12,000	4,355	7,645
Professional services	3,000	3,000	11,323	(8,323)
Equipment rental	15,000	15,000	27,891	(12,891)
TOTAL EXPENDITURES	62,750	62,750	70,247	(7,497)
REVENUES (UNDER) EXPENDITURES	12,650	12,650	(18,144)	(30,794)
OTHER FINANCING SOURCES				
Transfers in	-	-	18,514	18,514
NET CHANGE IN FUND BALANCES	12,650	12,650	370	(12,280)
FUND BALANCES, BEGINNING OF YEAR	12,156	12,156	12,156	-
FUND BALANCES, END OF YEAR	\$ 24,806	\$ 24,806	\$ 12,526	\$ (12,280)

VILLAGE OF CHESANING, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET LIGHTING FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Taxes	\$ 43,808	\$ 43,808	\$ 43,112	\$ (696)
Interest	145	145	1,628	1,483
TOTAL REVENUES	43,953	43,953	44,740	787
EXPENDITURES				
Public works:				
Streetlights	35,000	35,000	34,209	791
REVENUES OVER (UNDER) EXPENDITURES	8,953	8,953	10,531	1,578
OTHER FINANCING (USES)				
Transfers (out)	(2,800)	(2,800)	-	2,800
NET CHANGE IN FUND BALANCES	6,153	6,153	10,531	4,378
FUND BALANCE, BEGINNING OF YEAR	48,204	48,204	48,204	-
FUND BALANCE, END OF YEAR	<u>\$ 54,357</u>	<u>\$ 54,357</u>	<u>\$ 58,735</u>	<u>\$ 4,378</u>

VILLAGE OF CHESANING, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
RIVER RESTORATION FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Other	\$ -	\$ -	\$ 15,845	\$ 15,845
EXPENDITURES				
Public works:				
River	23,440	23,440	20,462	2,978
REVENUES OVER (UNDER) EXPENDITURES	(23,440)	(23,440)	(4,617)	18,823
OTHER FINANCING SOURCES				
Transfers in	-	-	9,220	9,220
NET CHANGE IN FUND BALANCES	(23,440)	(23,440)	4,603	28,043
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (23,440)</u>	<u>\$ (23,440)</u>	<u>\$ 4,603</u>	<u>\$ 28,043</u>

VILLAGE OF CHESANING, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SIDEWALK IMPROVEMENT FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Other	\$ 1,983	\$ 1,983	\$ 2,271	\$ 288
EXPENDITURES				
Public works:				
Sidewalks	6,983	6,983	2,145	4,838
REVENUES OVER (UNDER) EXPENDITURES	(5,000)	(5,000)	126	5,126
OTHER FINANCING SOURCES				
Transfers in	5,000	5,000	-	(5,000)
NET CHANGE IN FUND BALANCES	-	-	126	126
FUND BALANCE, BEGINNING OF YEAR	13,760	13,760	13,760	-
FUND BALANCE, END OF YEAR	<u>\$ 13,760</u>	<u>\$ 13,760</u>	<u>\$ 13,886</u>	<u>\$ 126</u>

VILLAGE OF CHESANING, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
AIRPORT FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Rental income	\$ -	\$ -	\$ 618	\$ 618
Interest	-	-	38	38
Other	-	-	2,992	2,992
TOTAL REVENUES	-	-	3,648	3,648
EXPENDITURES				
Public works:				
Materials and supplies	-	-	5,519	(5,519)
NET CHANGE IN FUND BALANCES	-	-	(1,871)	(1,871)
FUND BALANCE, BEGINNING OF YEAR	11,689	11,689	11,689	-
FUND BALANCE, END OF YEAR	\$ 11,689	\$ 11,689	\$ 9,818	\$ (1,871)

VILLAGE OF CHESANING, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DPW BUILDING FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Interest	\$ -	\$ -	\$ 1,150	\$ 1,150
FUND BALANCE, BEGINNING OF YEAR	44,770	44,770	44,770	-
FUND BALANCE, END OF YEAR	\$ 44,770	\$ 44,770	\$ 45,920	\$ 1,150

VILLAGE OF CHESANING, MICHIGAN

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
PEET CENTER FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES				
Interest	\$ -	\$ -	\$ -	\$ -
Donations	-	-	-	-
TOTAL REVENUES	-	-	-	-
EXPENDITURES				
Public works:				
Materials and supplies	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	4	4	4	-
FUND BALANCE, END OF YEAR	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>-</u>

COMPONENT UNIT

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
DOWNTOWN DEVELOPMENT AUTHORITY**

FEBRUARY 28, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY		ADJUSTMENTS	STATEMENT OF NET ASSETS	
ASSETS					
Cash and cash equivalents	\$	158,079	\$ -	\$	158,079
Accounts receivable		2,272			2,272
Taxes receivable - delinquent		77,013	-		77,013
TOTAL ASSETS	\$	237,364	\$ -	\$	237,364
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$	504	\$ 19,109	\$	19,613
Due to primary government		15,279	(15,279)		-
Noncurrent liabilities:		-	-		-
Due within one year		-	36,000		36,000
Due in more than one year		-	190,000		190,000
TOTAL LIABILITIES		15,783	229,830		245,613
FUND BALANCES					
Unreserved - undesignated		221,581	(221,581)		-
TOTAL LIABILITIES AND FUND BALANCES	\$	237,364	8,249		245,613
NET ASSETS (DEFICIT), unrestricted			\$ (8,249)	\$	(8,249)

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
DOWNTOWN DEVELOPMENT AUTHORITY**

FOR THE YEAR ENDED FEBRUARY 28, 2006

	DOWNTOWN DEVELOPMENT AUTHORITY	ADJUSTMENTS	STATEMENT OF ACTIVITIES
REVENUES			
Taxes and special assessments	\$ 132,326	\$ -	\$ 132,326
Interest	4,442	-	4,442
Other	3,143	-	3,143
TOTAL REVENUES	<u>139,911</u>	<u>-</u>	<u>139,911</u>
EXPENDITURES / EXPENSES			
Health and welfare	41,277	-	41,277
Debt service	56,775	(37,775)	19,000
TOTAL EXPENDITURES / EXPENSES	<u>98,052</u>	<u>(37,775)</u>	<u>60,277</u>
CHANGE IN FUND BALANCES / NET ASSETS	41,859	37,775	79,634
FUND BALANCES/NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>179,722</u>	<u>(267,605)</u>	<u>(87,883)</u>
FUND BALANCES/NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 221,581</u>	<u>\$ (229,830)</u>	<u>\$ (8,249)</u>



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

April 21, 2006

To the Village Council
Village of Chesaning
Chesaning, Michigan

In planning and performing our audit of the general purpose financial statements of the ***Village of Chesaning*** for the year ended February 28, 2006, we considered the Village's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the primary government financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the management and personnel for their support and assistance during the audit of the ***Village of Chesaning***.

VILLAGE OF CHESANING

COMMENTS AND RECOMMENDATIONS

A) SEWER FUND NEGATIVE CASH BALANCE IN POOLED ACCOUNT

The Village maintains a pooled checking account for several funds of the Village. During the year some funds carry negative cash balances, which are offset by positive balances in other funds. The Sewer Fund has had a negative cash balance for several years and at the end of the current fiscal year had a negative balance of approximately \$164,000. This negative balance is primarily the result of past user fees received not being sufficient to cover expenses that were paid. This situation has improved over the prior year but the Village faces significant repair and maintenance costs as a result of requirements imposed by the Michigan Department of Environmental Quality and this situation is expected to continue in the future.

We recommend that the Village continue to monitor the current rate structure and determine if the user fees generated will be sufficient to cover operating expenses, current debt service requirements, and the expected future construction and debt service requirements.

B) UNIFORM ACCOUNTING AND BUDGETING ACT

The Uniform Accounting and Budgeting Act requires that the Village adopt a budget for the general fund and all special revenue funds in which the expenditures do not exceed the expected revenues and any available fund balance. The Village adopted a budget for the new River Restoration Special Revenue Fund that did not include a revenue source equal to the expenditures that were budget and this resulted in the Village adopting a budget that would result in a fund balance deficit.

We recommend that the Village review its budgeting procedures and make appropriate changes to ensure that the formal budget adopted is in accordance with requirements of the State of Michigan.

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